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SUBJECT: GRAY AREA; DARK HORSES: GOVERNMENT RESTRUCTURING
FOLLOWS SZDSZ DEPARTURE

REF: BUDAPEST 401 AND PREVIOUS

Classified By: P/E COUNSELOR ERIC V. GAUDIOSI; REASONS 1.4 (B) AND (D)

INTO THE GRAY AREA

11. (SBU) With the overwhelming vote of the SzDSz's national committee on April 27 confirming the party leadership's decision to leave the governing coalition, Hungary has entered the uncharted waters of minority government.

SzDSz: GOING, GOING, GONE

12. (SBU) With some discussion but reportedly little real debate, 84 percent of the SzDSz national committee members voted to leave the governing coalition at this weekend's meeting. A proposal to delay a decision until after the party's June 7 presidential elections was voted down, albeit by a much narrower margin, and the party is expected to formally sever its coalition relationship at a meeting of its parliamentary faction on April 28.

13. (C) The SzDSz meeting may also have marked the beginning of its own party election campaign. Despite Party President Koka's appeal for an "internal coalition" to preserve the party's unity, (soon to be former) Environment Minister Gabor Fodor gave what many attendees regard as a campaign speech for the party presidency, calling for the party to broaden its appeal to both the right and the left.

MSzP: WHO GOES THERE?

14. (C) The government has downplayed the significance of the SzDSz's departure, maintaining the public line that cooperation between the MSzP and SzDSz will continue "in parliament if not in government." Indeed, SzDSz official Gabor Horn openly stated at this weekend's meeting that the party's goal is) much like many Socialists' objective) "preventing FIDESZ from winning a two-thirds majority in the next elections" (reftel). In his address to Parliament April 28, Koka committed the SzDSz to "constructive opposition" and shook Gyurcsany's hand at the conclusion of his remarks. In a private conversation afterwards, SzDSz MP Matyas Eorsi looked back more in sorrow than anger, telling us afterwards that "the coalition began so well" but could not survive "Gyurcsany's one-man show."

15. (C) The government moved swiftly in response to the SzDSz's decision, meeting late into the night on April 27 to "restructure" the government. In public remarks April 28, PM Gyurcsany announced the following changes "to better advance the government's agenda":

Long-time Gyurcsany associate Gordon Bajnai will take over a new Ministry of National Development and Economy. This will give the highly-regarded Bajnai broader influence over

economic issues, as he will reportedly take elements of his current responsibility for coordinating EU Development Funds with him from his present position as Minister for Local Government Affairs. Although his bureaucratic empire still appears to fall short of the Economic "Super Ministry" many had predicted, Bajnai's name continues to circulate as a potential Prime Ministerial candidate.

Pal Szabo, Director of the Hungarian Postal Service (the most highly-respected public institution in Hungary according to opinion polls), will head a new Ministry of Infrastructure. The new Ministry will take over many of the transportation-related tasks formerly vested in the Economy Ministry - likely among them dealing with Hungary's restive transport unions) as well as IT and energy. At Magyar Posta since 2002 and former head of the Hungarian Privatization Agency in the mid-90s, Szabo is a long-time administrator with experience overseas (including in Iraq in the early 80s). MSZP Party Treasurer Laszlo Puch, frequently identified as the MSZP's money man, will reportedly be Szabo's State Secretary.

Tamas Szekely, an apolitical expert, will replace the SzDSz's Agnes Horvath as Minister of Health, whose oversight of health care reform had her at the bottom of most popularity surveys. Szekely's stature should give the government a degree of political cover in revisiting the issue.

Erika Szucs, a first-term MSZP MP and Vice-Mayor of Miskolc, is the new Minister of Social Affairs. Szucs, a relative unknown but a member of the board of a Gyurcsany-owned company, replaces MSZP fixture Monika Lamperth, who will reportedly be given a position managing the party's day-to-day operations. This is widely seen as a demotion for

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Lamperth, and some commentators believe her removal indicates that Gyurcsany is more confident of his position within the party.

Imre Szabo, one of the MSZP's deputy faction leader and head of the Pest County MSZP, will serve as Minister of Environment. A former gym teacher, Szabo is little-known outside the party but has worked on environmental issues within the MSZP and is the Secretary-General of the Hungarian Nature Lovers Association.

Istvan Gyenesei, an independent MP formerly a member of the MSZP, will take over responsibility for local government affairs (and presumably assure the government of his support in Parliament at a time when every vote counts.

Karoly Molnar, a professor since 1967 and long-time rector of the Budapest University of Technology, will be responsible for coordinating research and development issues as Minister without Portfolio.

ADVISE AND CONSENT

16. (C) The new restructuring will represent the first test of the MSZP's ability to govern in minority. The new arrangements will require Parliamentary approval, confronting the SzDSz with a decision whether to support the government from outside (or to let it suffer a defeat many will see as a de facto confidence vote. Eorsi indicated strongly to us that the SzDSz will not contest the government's appointments, and Andras Keszthelyi of the Prime Minister's Office (himself a former advisor to the SzDSz) tells us that an informal agreement is already in place to secure the SzDSz's concurrence. Other SzDSz MPs, however, have noted that the party's support for the restructuring should not be "taken for granted." Even if the restructuring is approved, both FIDESZ and the MDF are already calling for the Gyurcsany government to submit to a formal vote of confidence in Parliament.

CHANGING (DARK) HORSES

17. (C) Comment: The government has been focusing its rhetoric on economic growth, and the reshuffle does put a heavy bureaucratic emphasis on development. But the key words might be heavy and bureaucratic. Outgoing Minister of Economy Csaba Kakosy told Ambassador Foley, "someone is under the misconception that organizational changes will solve reforms." He predicted at least a 2-month hiatus to digest the changes. Although the proposal brings in known quantities, political appointees, and outside experts, criticism may target the institutions more than the individuals. By shifting responsibilities significantly while leaving the lines of coordination unclear, the proposal could well make Hungary's already daunting bureaucracy even less efficient. Following an early morning meeting with Bajnai, Finance Minister Veres told the Ambassador that the MSzP will continue to press for "modest reforms" in health care, education, pensions, and public administration (septel), relying heavily on EU funds. These intentions notwithstanding, critics point out that the restructuring could well add layers rather than value. End Comment.

Foley